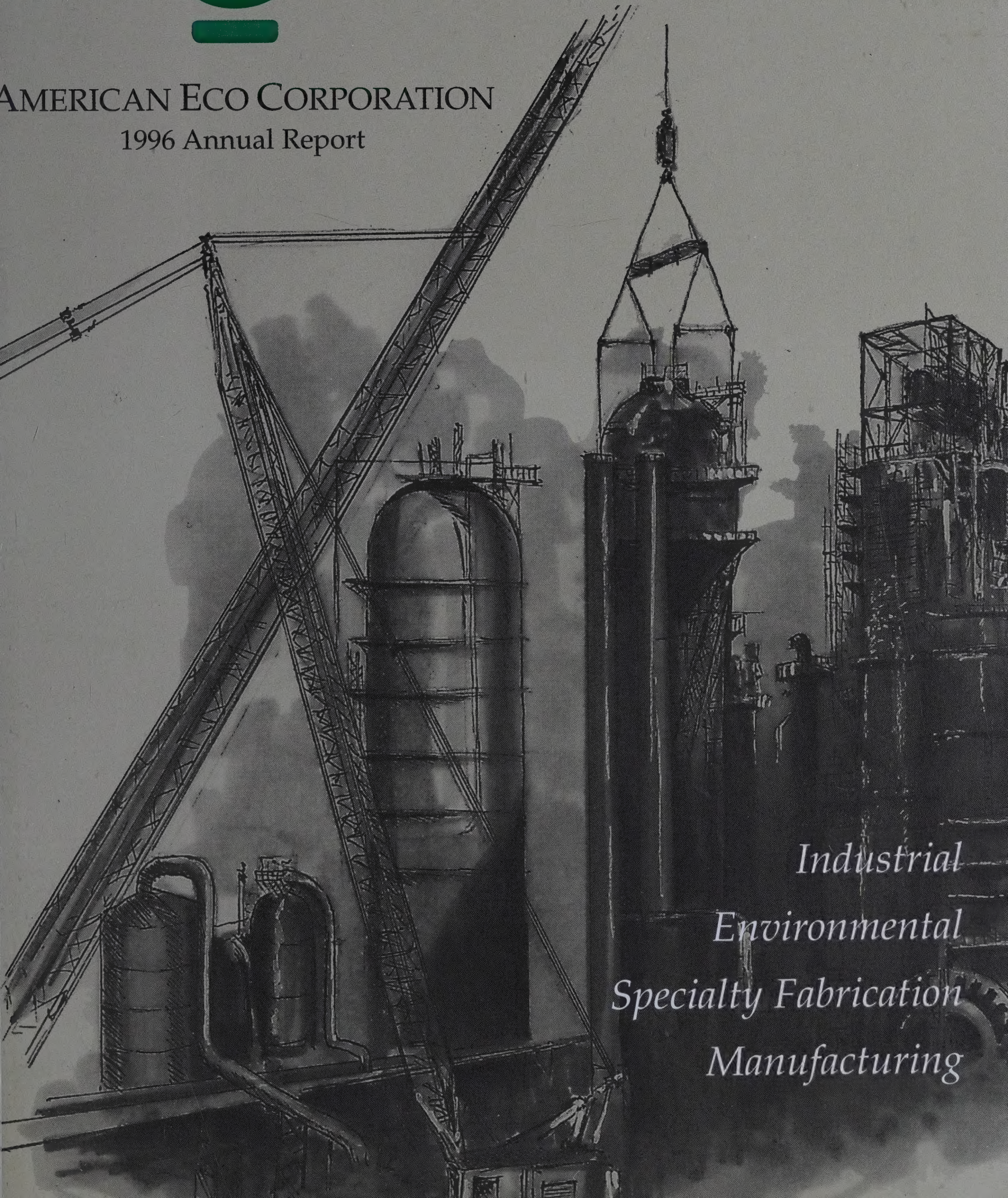
American Eco Corporation

1996 Annual Report



Industrial

Environmental

Specialty Fabrication

Manufacturing

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ABOUT THE COMPANY

American Eco Corporation provides a strong complement of industrial construction, engineering, contract maintenance, fabrication, and environmental services to clients worldwide. The Company's mission is to deliver integrated, single-source solutions to its clients throughout the demanding refining, petrochemical, forest products, utility, offshore oil & gas, and heavy manufacturing industries. American Eco Corporation is traded on the Toronto Stock Exchange and on NASDAQ.

MISSION STATEMENT

To build a company based on people, safety, and quality that will enable us to become the recognized leader in providing specialized industrial maintenance services for the worldwide industrial market.

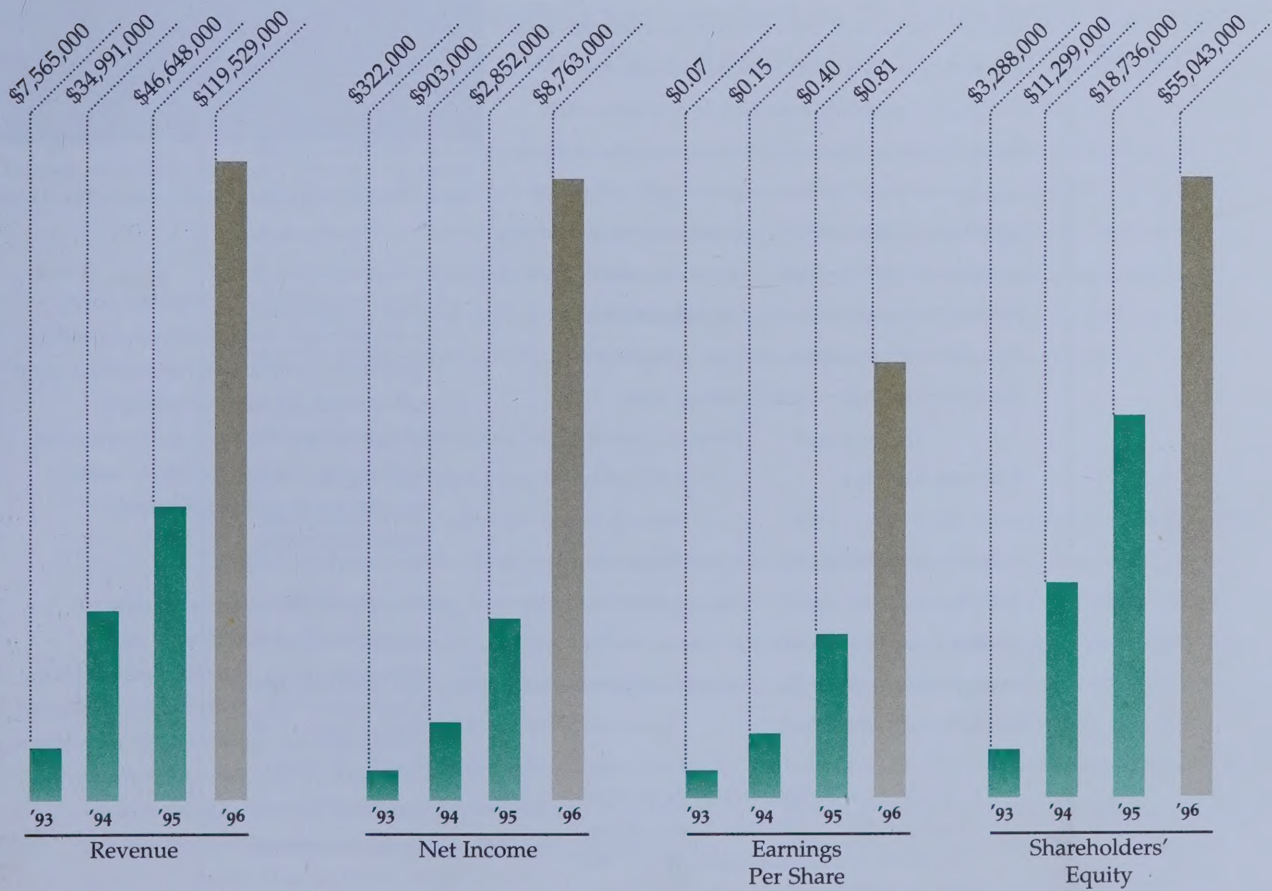
ACTION PLAN

- **Attract and develop superior personnel**
- **Enhance and safely provide impeccable service to a diverse client base**
- **Select appropriate diversification partners to enhance and improve complete service offerings**
- **Expand North American presence while taking advantage of international opportunities via current relationships**
- **Maintain strong internal growth**

Illustrations by Neil Hoey

Comparative Highlights
American Eco Corporation

Fiscal Years Ended November 30 (United States Dollars)	1996	1995	1994	1993
Income Statement				
Revenue	$ 119,529,000	$ 46,648,000	$ 34,991,000	$ 7,565,000
Net Income	8,763,000	2,852,000	903,000	322,000
Earnings Per Share	0.81	0.40	0.15	0.07
Weighted Average Common Shares Outstanding	10,846,516	7,217,000	6,191,000	4,680,000
Balance Sheet				
Working Capital	$ 3,280,000	$ 6,639,000	$ 6,441,000	$ 3,639,000
Total Assets	104,484,000	31,061,000	22,947,000	15,007,000
Long-Term Debt	8,093,000	2,271,000	5,298,000	9,085,000
Shareholders' Equity	55,043,000	18,736,000	11,299,000	3,288,000



1996 REPORT TO SHAREHOLDERS

We are proud to report that American Eco Corporation achieved many milestones in 1996. Revenues increased from $46.7 million to $119.5 million, an increase of 156 percent over last year. Net income reached $8.8 million, a 200 percent increase. Earnings per share more than doubled to $0.81 from last year's $0.40.

There are many reasons for optimism as we enter the new fiscal year. Share value has doubled, and our listing on NASDAQ has heightened the company's visibility, resulting in approximately 300,000 shares being traded daily compared to an average of 15,000 shares traded a year and a half ago. These factors, combined with revenues now in excess of $100 million, add to our credibility in financial markets and will also help attract institutional participation in our company — a significant goal during the coming year.

(From left to right) Hon. Donald Getty, J. C. Pennie, Tyrrell Garth, William Dimma, Barry Cracower, Mark White, Michael McGinnis

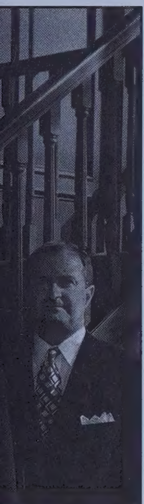
Business Strategy

Acquisitions brought on line in 1996 are each poised to achieve strong revenue gains during the coming year. These acquisitions combine to strengthen American Eco Corporation in several ways:

1) *They bring new customers in the utility, forest products, offshore oil & gas, refining and chemical processing industries — our primary target markets;*

2) *They contribute to the company's ability to deliver single source solutions by adding significant expertise in the areas of industrial maintenance, offshore and specialty fabrication, spill response, soil remediation, engineering, laboratory analysis, waste recovery, waste minimization and abatement services;*

3) *They expand the company's presence geographically. With offices located throughout North America, American Eco is better positioned to deliver its complement of integrated services nationally. In addition, the acquisition of Separation & Recovery Systems in Irvine, California adds a significant international presence that we intend to build upon.*



Our growth will continue to be fueled by acquisitions. We also expect our internal growth rate to be substantial as our operating units strengthen working relationships in order to deliver integrated services to their respective markets. The acquisitions of Environmental Evolutions, Corpus Christi, Texas; Industra Service Corporation, Vancouver, British Columbia, Canada; Separation and Recovery Systems, Irvine, California; MM Industra (formerly M&M Mfg.), Dartmouth, Nova Scotia, Canada; United Eco Systems, High Point, North Carolina; and Chempower*, Akron, Ohio, brought with them very experienced management teams with capable workforces. The management of these organizations understands their markets, knows their businesses, and each has a strong grasp of American Eco's mission to provide ***single-source solutions*** to industry.

We are seeing the results of this synergy at work. One example: by combining technologies and capabilities, three American Eco companies — SRS, Industra Service Corporation and United Eco Systems — won a five-year contract to construct and operate a facility in New Jersey that will treat soils contaminated with hydrocarbons, heavy coal tars and Polychlorinated Biphenyls. The facility, which is expected to serve utilities, environmental contractors, and heavy manufacturing industries in the region, will incorporate remediation technologies provided by United Eco Systems and SRS to treat the contaminated soil. This project, which could contribute revenues of $40 million over the next five years, may be a precursor for similar projects throughout the United States.

"Revenues increased from $46.7 million to $119.5 million, an increase of 156 percent over last year. Net income increased 200 percent to $8.8 million. Earnings per share more than doubled to $0.81 from $0.40."

The significant improvement in our market share, combined with a stronger balance sheet, clearly improves our ability to pursue and attract acquisitions. We will continue to aggressively seek opportunities to acquire well-managed companies that have the capabilities, customers and geographical presence to contribute to our long-term strategic mission. While exchange of stock will continue to be a vehicle for acquiring complementary companies, we will consider alternate financing methods when warranted.

Management

Our management team was strengthened with the addition of Frank J. Fradella as Executive Vice-President and Chief Operating Officer. Mr. Fradella has over twenty years experience in the environmental services and specialty contracting businesses. Prior to joining American Eco, he was president of a publicly-traded $140 million firm. As we continue to add operating units, Mr. Fradella will work to ensure their successful integration.

* *Effective March 1997*

In addition, we welcome Mr. David Norris as Chief Financial Officer. Mr. Norris' financial background, combined with his considerable firsthand knowledge of the environmental services industry, make him a valuable addition to our management team.

We are pleased to announce the addition of Mr. William Dimma, the Hon. Donald Getty, Mr. Tyrrell Garth, and Mr. Barry Cracower to our Board of Directors. Their business credentials, industry experience, and participation on numerous corporate boards bring invaluable experience and perspective to our company.

Our mission reminds us that our people are the key to our success and clearly our momentum would not be possible without their commitment and professionalism. Their performance, particularly in the area of safety and quality management, has certainly proven to be one of our company's most important competitive advantages. On behalf of the Board, the shareholders, and management, we extend them a sincere "thank you". They are truly the backbone of our organization.

To our shareholders, our strong growth rate will continue throughout 1997. As the management of your company has pledged, we will stay the course outlined in each of our previous Annual Reports to Shareholders. It is a course that has enabled your company to report four consecutive years of record earnings.

Management will remain focused on its mission, will set ever higher standards of corporate performance, and will continue to increase value for you, our customers and our employees. Thank you for your continued support.

On behalf of the Board,

Mark White
Chairman of the Board

Michael E. McGinnis
President & CEO

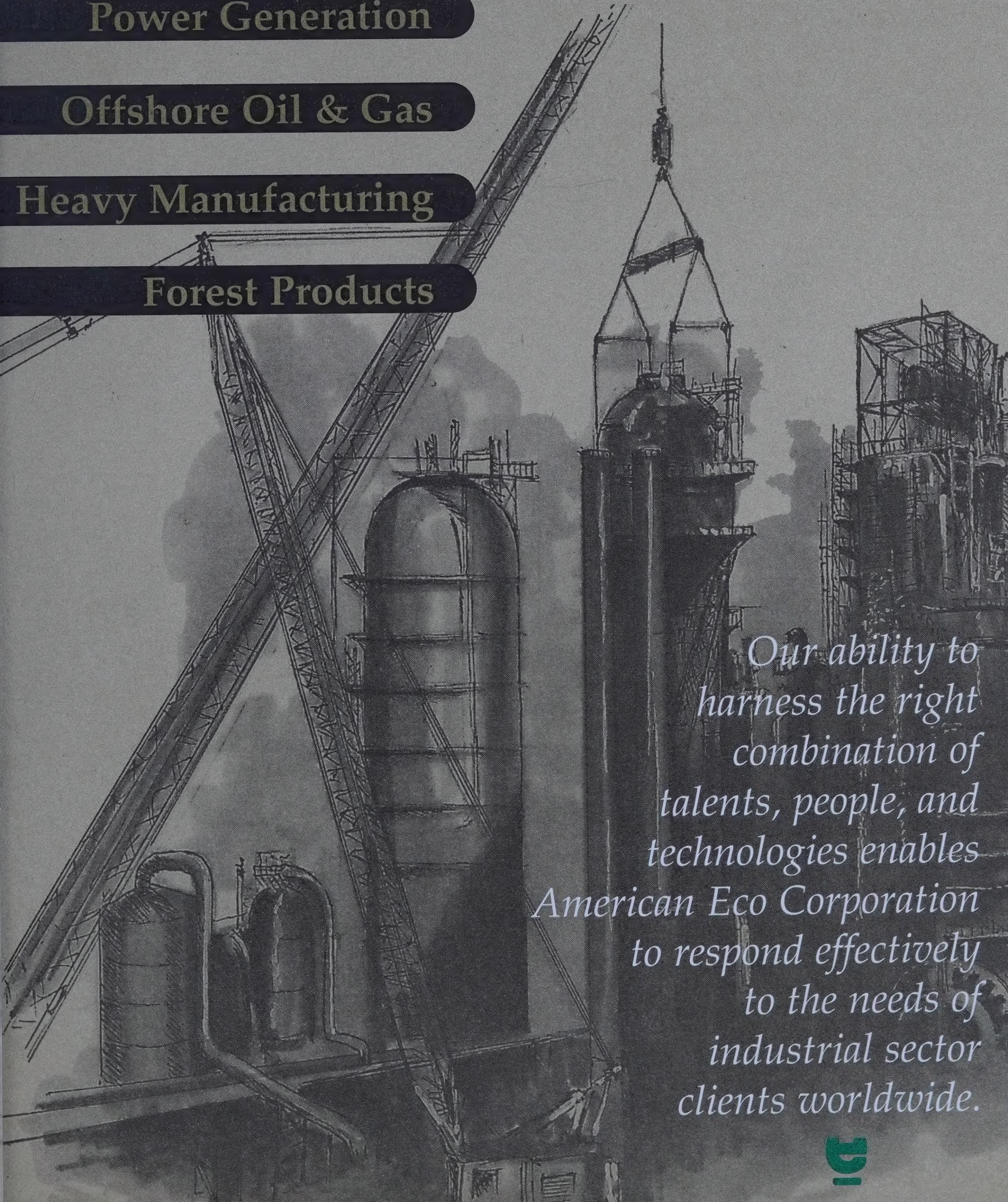
Refining, Petrochemical

Power Generation

Offshore Oil & Gas

Heavy Manufacturing

Forest Products



Our ability to harness the right combination of talents, people, and technologies enables American Eco Corporation to respond effectively to the needs of industrial sector clients worldwide.

SOLUT

Integrated

S I N G L E

The challenges faced by industrial sector clients today are numerous — rising product demand, stricter regulatory compliance, aggressive world-wide competition. Without a doubt, the necessity of meeting these challenges has redefined the client/contractor relationship. Client companies are demanding more accountability and more innovative approaches to their most pressing needs — expectations are higher.

At American Eco Corporation, we strive to exceed customer expectations. Our complement of construction, specialty fabrication, engineering and environmental services enables our company to integrate and overlap activities to deliver cost-effective and efficient solutions to our clients.

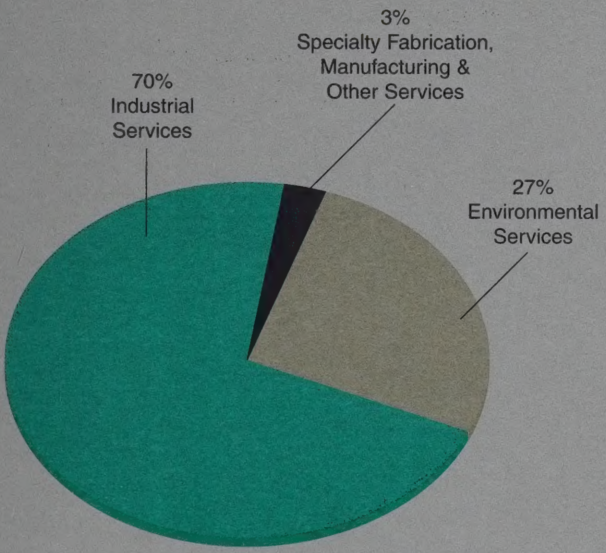
A company-wide commitment to training, quality assurance and safety management is the cornerstone of American Eco Corporation's strategy to set the industry standard for service excellence.

Environmental

- Waste Recovery and Waste Minimization
- Soil, Sludge and Ground Water Remediation
- Lead and Asbestos Abatement
- Laboratory Analysis
- PCB Transformer Decommissioning
- Waste Transportation and Disposal
- Spill Response

TIONS

S O U R C E



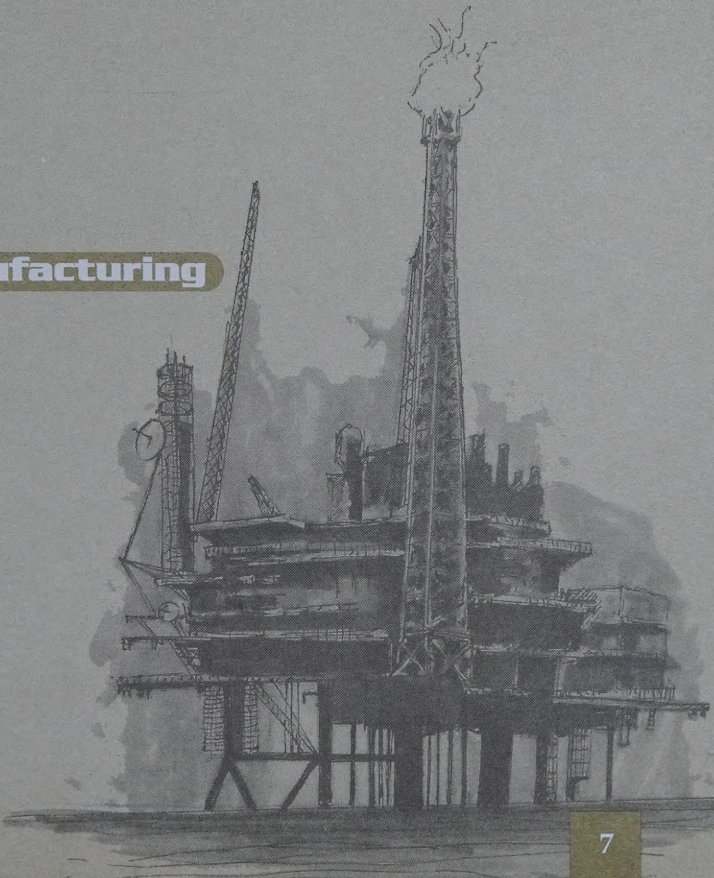
Revenues By Services

Industrial

- Engineering, Facilities Design
- Contract Maintenance
- Plant Turnarounds
- New Construction and Retrofit
- Demolition and Dismantlement
- Project Management, Procurement

Specialty Fabrication & Manufacturing

- Repair of ASME-Coded Vessels
- Custom Steel and Alloy Fabrication
- Specialty Piping
- Construction of Offshore Platforms
- Fabrication of Towers, Boilers, Skid-Mounted Units, Furnaces, Heat Exchangers
- Pollution Abatement Equipment



North America Main Office Locations

Industrial, Environmental, Specialty Fabrication & Manufacturing

CORPORATE OFFICES

Headquarters

American Eco Corporation

11011 Jones Road
Houston, TX 77070
(281) 774-7000
(281) 774-7001 Fax

154 University Avenue
Suite 200
Toronto, Ontario, Canada M5H 3Y9
(416) 340-2727
(416) 340-2457 Fax

Operating Units

Eco Environmental, Inc.

1325 South Creek Drive, Ste. 100
Houston, TX 77084
(281) 647-0505
(281) 647-0080 Fax

The Turner Group

6201 Procter Street Extension
Port Arthur, TX 77642
(409) 962-0266
(409) 962-8841 Fax

The Lake Charles Group

6102 Common Street
Lake Charles, LA 70605
(318) 474-4267
(318) 474-5034 Fax

Environmental Evolutions, Inc.

7330 Greenwood Drive
Corpus Christi, TX 78417
(512) 289-8885
(512) 289-8887 Fax

United Eco Systems

1108 Old Thomasville Road
Highpoint, NC 27260
(910) 883-7505
(910) 882-7958 Fax

Separation & Recovery Systems

1762 McGaw Avenue
Irvine, CA 92714-4962
(714) 261-8860
(714) 261-6010 Fax

MM Industra, Ltd.

61 Estates Road
Woodside Industrial Park
Dartmouth, NS Canada B2Y 4K3
(902) 465-7675
(902) 465-4102 Fax

Industra Service Corporation

401 Salter Street
New Westminster, BC Canada V3M 5Y1
(604) 521-3322
(604) 521-3057 Fax

Chempower, Inc. *(effective March 1997)*

807 East Turkeyfoot Lake Road
Akron, OH 44319
(330) 896-4202
(330) 896-1866 Fax

Cambridge Construction Service Corp.

5050 Quorum Drive, Ste. 510
Dallas, TX 75240
(972) 702-0951
(972) 490-7475 Fax

DIRECTORS

Mark White
Chairman of the Board
American Eco Corporation
Former Governor, State of Texas
Houston, Texas

J. C. Pennie*
Vice-Chairman of the Board
American Eco Corporation
President, Windrush Corporation
Toronto, Ontario, Canada

Barry Cracower*
President, Pharmx Rexall Drug Stores, Ltd.
Concord, Ontario, Canada

William A. Dimma
Chairman, Swiss Re Canada
Group of Companies
Toronto, Ontario, Canada

Tyrrell R. Garth*
President, Cheyenne Capital, Inc.
Beaumont, Texas

Hon. Donald R. Getty
President, Sunnybank Investments, Ltd.
Edmonton, Alberta, Canada

Michael E. McGinnis
President & Chief Executive Officer
American Eco Corporation
Houston, Texas

* Member, Audit Committee

OFFICERS

Frank Fradella
Chief Operating Officer

Michael E. McGinnis
President & Chief Executive Officer

David L. Norris
Chief Financial Officer

Bruce Rich
Secretary

Mark White
Chairman of the Board

ADVISORS

Independent Auditors
Karlins, Fuller, Arnold & Klodosky, PC
Certified Public Accountants
DFK International
Houston, Texas

Legal Counsel
Cassels, Brock & Blackwell
Barristers & Solicitors
Toronto, Ontario, Canada

Reid & Priest LLP
New York City, New York

Bankers
Royal Bank of Canada
Toronto, Ontario, Canada

Wells Fargo Bank
Houston, Texas

Merrill Lynch
Houston, Texas

INFORMATION

Securities Trading
American Eco's common stock is traded on the Toronto Stock Exchange under the symbol ECX and on the NASDAQ under the symbol ECGOF.

Transfer Agent and Registrar
Communications regarding stock transfers, lost certificates, or address changes should be directed to:

R-M Trust Company
393 University Avenue
Toronto, Ontario, Canada M5G 2M7
(800) 387-0825
(416) 813-4555 Fax

Shareholder Inquiries
Investor Relations
American Eco Corporation
11011 Jones Road
Houston, Texas 77070
(281) 774-7000
(281) 774-7002 Fax

Annual Shareholders Meeting
The Annual Shareholder's Meeting will begin at 4:30p.m. on May 7, 1997 at the Sheraton Centre Toronto, 123 Queen Street W., Toronto, Ontario, Canada M5H 2M9.

Independent Auditor's Report

To the Shareholders and Directors of American Eco Corporation:

We have audited the accompanying consolidated balance sheet of American Eco Corporation as of November 30, 1996 and 1995 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended November 30, 1996, which, as described in Note O, have been prepared on the basis of accounting principles generally accepted in Canada. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States (and in Canada). U.S. standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Eco Corporation as of November 30, 1996 and 1995, and the results of its operations and its changes in financial position for each of the three years in the period ended November 30, 1996, in conformity with accounting principles generally accepted in Canada.

Karlins Fuller Arnold & Klodosky, P.C.

Houston, Texas
January 31, 1997

Management's Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants audit the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of three non-management Directors. The Committee meets periodically with financial management, and the independent accountants to review accounting, control, auditing and financial reporting matters.

Michael E. McGinnis
Director

B Cracower

Barry Cracower
Director

January 31, 1997

Contents To Consolidated Financial Statements

Consolidated Balance Sheet

For The Years Ended November 30, 1996 and 1995
(United States Dollars in Thousands)

	1996	1995
ASSETS		
CURRENT ASSETS		
Cash	$ 317	$ 898
Certificate of Deposit, restricted	180	172
Accounts receivable, trade, less allowance for doubtful accounts of $346 and $60 at November 30, 1996 and 1995, respectively	20,918	5,535
Current portion of notes receivable (Note B)	6,695	1,870
Costs and estimated earnings in excess of billings on jobs in progress (Note I)	3,446	2,996
Inventory	6,807	1,923
Deferred income tax (Note L)	1,393	442
Prepaid expenses, other	4,499	2,857
TOTAL CURRENT ASSETS	44,255	16,693
PROPERTY, PLANT AND EQUIPMENT, NET (Note C)	33,238	5,844
OTHER ASSETS		
Goodwill (Note D), net of accumulated amortization of $762 and $225 at November 30, 1996 and 1995, respectively	18,969	7,123
Debenture issue costs	97	7
Notes receivable (Note B)	280	—
Investments (Note E)	7,645	1,394
TOTAL OTHER ASSETS	26,991	8,524
TOTAL ASSETS	$104,484	$31,061

The accompanying notes are an integral part of these financial statements

Consolidated Balance Sheet (Continued)

For The Years Ended November 30, 1996 and 1995
(United States Dollars in Thousands)

	1996	1995
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 18,449	$ 5,144
Notes payable (Note F)	20,399	3,971
Current portion of long-term debt (Note G)	1,595	451
Current portion of obligations under capital leases (Note H)	113	75
Deferred income taxes	—	219
Billings in excess of costs and estimated earnings on jobs in progress (Note I)	419	194
TOTAL CURRENT LIABILITIES	40,975	10,054
LONG-TERM LIABILITIES		
Long-term debt (Note G)	6,618	1,931
Obligations under capital leases (Note H)	102	169
Deferred income tax liability (Note L)	1,373	171
	8,093	2,271
TOTAL LIABILITIES	49,068	12,325
MINORITY INTEREST	373	—
COMMITMENTS AND CONTINGENCIES (Note R)		
SHAREHOLDERS' EQUITY		
Share capital (Note M)	39,411	11,803
Share capital subscribed	34	98
Contributed surplus	2,845	2,845
Retained earnings	12,753	3,990
	55,043	18,736
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$104,484	$31,061

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Retained Earnings

For The Years Ended November 30, 1996, 1995 and 1994
(United States Dollars in Thousands)

Balance, November 30, 1993	$ 235
Net income, for the year ended November 30, 1994	903
Balance, November 30, 1994	1,138
Net income, for the year ended November 30, 1995	2,852
Balance, November 30, 1995	3,990
Net income, for the year ended November 30, 1996	8,763
Balance, November 30, 1996	$12,753

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income

For The Years Ended November 30, 1996, 1995 and 1994
(United States Dollars in Thousands)

	1996	1995	1994
REVENUE	$ 119,529	$ 46,684	$ 34,991
COSTS AND EXPENSES			
Costs of contracts, sales and other operating expenses	107,819	42,270	32,318
Interest expense on long-term debt	1,747	713	681
Depreciation and amortization	2,232	1,107	1,044
Gain on sale of equipment	(2)	(370)	—
Foreign exchange (income)	(221)	(96)	(118)
	111,575	43,624	33,925
INCOME FROM CONTINUING OPERATIONS BEFORE RECOVERY OF (PROVISION FOR) INCOME TAX	7,954	3,060	1,066
RECOVERY OF (PROVISION FOR) INCOME TAX (Note L)	809	(208)	(58)
INCOME FROM CONTINUING OPERATIONS	8,763	2,852	1,008
DISCONTINUED OPERATIONS (Note Q)			
Loss from operations of discontinued division (less applicable tax benefit of $49)	—	—	(95)
Loss on equipment held for sale (less applicable tax benefit of $5)	—	—	(10)
	—	—	(105)
NET INCOME	$ 8,763	$ 2,852	$ 903
Earnings per common share:			
Income from continuing operations	$0.81	$0.40	$0.16
Net income	$0.81	$0.40	$0.15
Weighted average number of shares used in computing income per common share (Note M)	10,846,516	7,217,005	6,191,296

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

For The Years Ended November 30, 1996, 1995 and 1994
(United States Dollars in Thousands)

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 8,763	$ 2,852	$ 1,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations	—	—	(105)
Gain on sale of equipment	(2)	(370)	—
Depreciation and amortization	2,232	1,107	1,044
Change in deferred income taxes	490	(64)	4
Change in certificate of deposit, restricted	(8)	(6)	(166)
Change in accounts receivable	(1,823)	(1,356)	(1,553)
Change in costs and estimated earnings in excess of billings on jobs in progress	(363)	(1,059)	(981)
Change in inventory	(2,511)	189	2
Change in prepaid expenses	(748)	256	72
Change in accounts payable	(2,312)	981	683
Change in billings in excess of costs and estimated earnings on jobs in progress	34	75	(13)
Net cash provided by (used in) operating activities	3,752	2,605	(5)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(4,803)	(386)	(121)
Proceeds from sale of equipment	53	—	—
Increase in goodwill	(586)	(219)	(640)
Acquisition of business, net of cash acquired	18	(586)	—
Increase in investment	(6,156)	(727)	(633)
Net cash used in investing activities	(11,474)	(1,918)	(1,394)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes receivable	3,257	288	582
Disbursements for notes receivable	(8,350)	(625)	(1,051)
Proceeds from notes payable	14,920	800	3,182
Proceeds from long-term debt	428	—	—
Principal payments on notes payable	(7,412)	(739)	(321)
Principal payments on long-term debt	(927)	(325)	(438)
Principal payments on obligations under capital leases	(88)	(139)	(135)
Deferred foreign exchange	—	(27)	(18)
Debenture issuance costs	(193)	—	—
Stock issuance costs	—	(125)	—
Issuance of common stock	5,506	229	118
Net cash provided by (used in) financing activities	7,141	(663)	1,919
NET INCREASE (DECREASE) IN CASH	(581)	24	520
CASH AT BEGINNING OF YEAR	898	874	354
CASH AT END OF YEAR	$ 317	$ 898	$ 874

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(United States Dollars)

American Eco Corporation and its wholly-owned subsidiaries ("the Company" or "AEC") provide industrial services, environmental services and specialty manufacturing to the petrochemical, refining, forest products and offshore fabrication industries.

Note A: Basis Of Presentation And Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. There are no material differences, except as described in Note O, between the accounting principles applied by the Company and those that would be applied under accounting principles generally accepted in the United States.

Revenue Recognition - The Company recognizes revenues and profits on contracts using the percentage-of-completion method. Under the percentage-of-completion method, contract revenues are accrued based upon the percentage that accrued costs to date bear to total estimated costs. As contracts can extend over more than one accounting period, revisions in estimated total costs and profits during the course of work are reflected during the period in which the facts requiring the revisions become known. Losses on contracts are charged to income in the period in which such losses are first determined.

The percentage-of-completion method of accounting can result in the recognition of either costs and estimated profits in excess of billings or billings in excess of costs and estimated profits on uncompleted contracts, which are classified as current assets and liabilities, respectively, in the accompanying balance sheet. The current asset account represents costs incurred and profits earned that have not been billed to the customer on uncompleted construction contracts. The current liability account represents deferred income on uncompleted construction contracts. Generally accepted accounting principles for percentage-of-completion accounting require the classifications as current assets and liabilities.

Inventory - Inventory of raw material is valued at the lower of cost or market method, with cost determined on the first-in, first-out method. Inventory consists primarily of supplies and consumables used in conjunction with construction projects.

Property, Plant and Equipment - Property and equipment are stated at cost. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method over the following periods based on their estimated useful lives:

Buildings	40 years
Fabrication machinery, mobile and other equipment	3-10 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to earnings as incurred. When property and equipment are retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in earnings.

Amortization - The cost in excess of net assets of businesses acquired at their respective acquisition dates are amortized on a straight-line basis over 40 years. On an annual basis, the Company assesses the carrying value in order to determine whether an impairment has occurred, taking into account both historical and forecasted results of operations.

(United States Dollars)

NOTE A: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debenture financing costs - The costs of debenture financing are deferred and are amortized over the life of the related debt.

Prepaid expenses - Included in prepaid expenses is deferred financing costs in the amount of $1,145,000 and $805,000 at November 30, 1996 and 1995, respectively. This represents costs incurred with brokerage investment houses and other expenses in the Company's quest to raise capital. These costs have been deferred and will serve as an offset to the funds raised subsequent to November 30, 1996 (Refer to Note S).

Income taxes - The Company reflects income taxes based on the tax allocation method. Under this method, timing differences between reported and taxable income result in provisions for taxes not currently payable. Such timing differences arise principally as a result of claiming depreciation and amortization for tax purposes at amounts differing from those charged to income.

Earnings per share - Per share data is calculated using the weighted average number of shares outstanding for the year. Warrants and other stock options have not been included in earnings per share data as they are anti-dilutive.

Supplemental disclosures of cash flow information -

	1996	1995	1994
Cash paid during the years for:			
Interest	$1,614,000	$713,000	$712,000
Income taxes	$	$ 66,000	$ 5,000

Translation of financial statements into United States dollars - The consolidated financial statements are expressed in United States dollars using foreign currency translation procedures established by the Canadian Institute of Chartered Accountants. All of the Company's operations are classified as integrated operations for purposes of applying the translation procedures, and the functional currency is United States dollars.

For integrated purposes, cash, accounts and notes receivable, costs and estimated earnings in excess of billings, current liabilities and long term debt are translated into United States dollars using year end rates of exchange; all other assets and liabilities are translated at applicable historical rates of exchange. Revenues, expenses and certain costs are translated at annual average exchange rates except for inventory, depreciation and amortization which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life are deferred and amortized on a straight-line basis over the life of the item.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(United States Dollars)

NOTE B: NOTES RECEIVABLE

	1996	1995
	(U. S. Dollars in Thousands)	
EIF Holdings, Inc., receivable on July 31, 1997, maximum borrowings with under this agreement are $5,250,000, interest at the rate of prime plus 2%, unsecured.	$ 4,908	$ —
Impala Development, Ltd., interest at 12% secured by 144,500 shares AEC of stock, this note was repaid in February, 1997.	775	—
Michael McGinnis, President of AEC, receivable March through April, 1997, with interest at 10%, secured by 268,000 shares of AEC stock and 140,000 share options of AEC stock.	490	—
Frank Fradella, Chief Operating Officer of AEC, receivable $70,000 per annum, non-interest bearing, unsecured.	350	—
Kam Biotechnology International, LLC, receivable on December 31, 1997, with interest at the rate of 6%, unsecured.	200	200
Network Capital Management Group, Inc., ("Network") due on September 15, 1996, with interest at the rate of 7%, secured by fees and commissions to be earned by Network from the Company.	—	675
Turner Holdings, Inc., with interest at the rate of 8%, unsecured.	20	20
Longview Industries, Inc., non-interest bearing, secured by equipment.	—	675
Miscellaneous notes receivable	232	300
	6,975	1,870
Current portion	6,695	1,870
Long-term portion	$ 280	$ —

NOTE C: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	1996	1995
	(U. S. Dollars in Thousands)	
Land	$ 1,965	$ 56
Buildings	7,345	861
Fabrication machinery, mobile and other equipment	28,940	6,142
Furniture and fixtures	1,645	257
Equipment under capital leases	626	580
Leasehold improvements	908	69
	41,429	7,965
Accumulated depreciation and amortization	8,191	2,121
	$ 33,238	$ 5,844

Note D: Goodwill

1996

Effective January 1, 1996, the Company acquired all of the outstanding common stock of Environmental Evolutions, Inc., a Corpus Christi, Texas, company, in exchange for 400,000 shares of Company common stock with a fair market value of $2.4 million. The purchase price and expenses associated with the acquisition exceeded the fair value of net assets acquired by approximately $3.3 million and has been included in intangible assets. Pro forma results were not material to the Company's financial position or results of operations.

Effective May 31, 1996, the Company acquired substantially all the assets and assumed certain liabilities of United Eco Systems ("United"), a construction company located in High Point, North Carolina. The purchase price consisted of 315,000 shares of Company common stock with a fair market value of $2.5 million. The purchase price and expenses associated with the acquisition exceeded the fair market value of net assets acquired by approximately $2.8 million and has been included in intangible assets. Pro forma results were not material to the Company's financial position or results of operations.

Effective July 1, 1996, the Company acquired all of the outstanding common stock of Separation and Recovery Systems, Inc. ("SRS"), an Irvine, California, company. The purchase price consisted primarily of 736,667 shares of Company common stock with a fair market value of $5.6 million, which approximated the book value of SRS.

Effective July 22, 1996, the Company acquired all of the outstanding common stock of Industra Service Corporation ("Industra"), a British Columbia, Canada company. AEC exchanged 0.425 common shares for each common share of Industra, or 1,486,997 shares of AEC common shares. The purchase price and expenses associated with the acquisition exceeded the fair value of net assets of the business acquired by approximately $4.4 million and has been included in intangible assets.

All acquisitions have been accounted for using the purchase method; accordingly, the assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess purchase price and related expenses over the fair value of net assets acquired is included in "Goodwill". Under the purchase method of accounting, the results of operations are included in the consolidated financial statements from their acquisition dates.

The unaudited pro forma results, assuming the SRS and Industra acquisitions had occurred at December 1, 1993, are as follows:

	1995	1994
	(United States Dollars in Thousands, except Per Share data)	
Revenue	$ 112,000	$ 94,033
Net Income	$ 3,069	$ 12
Earnings Per Share	$ 0.33	$ 0.00

Note D: Goodwill (Continued)

The unaudited pro forma summary is not necessarily indicative either of results of operations that would have occurred had the acquisitions been made at the beginning of the periods presented, or of future results of operations of the combined companies.

1995

In July, 1995, the Company acquired all of the outstanding capital stock of Lake Charles Construction Corporation, in exchange for issuance of 520,000 shares of the Company's common stock valued at $2 million. The purchase price and expenses associated with the acquisition exceeded the fair value of net assets acquired by approximately $2.8 million.

Note E: Investment in EIF Holdings, Inc.

For the period, August 9, 1996 through November 7, 1996, the Company owned approximately 18% of EIF Holdings, Inc. ("EIF"). On November 7, 1996, the Company completed a transaction to acquire approximately another 20% of EIF. Since November 7, 1996, the Company accounts for its 38% ownership interest in EIF using the equity method of accounting. As of November 30, 1996, the Company's recorded investment in EIF was $5.2 million. No other investment made during fiscal 1996 exceeded $500,000.

Note F: Notes Payable

	1996	1995
	(United States Dollars in Thousands)	
Note payable to Merrill Lynch Business Financial Services, Inc., revolving line of credit, maximum borrowing of $10,000,000, interest at 30-day Commercial paper rate plus 2.75%, secured by all accounts, chattel paper, contract rights, inventory, equipment, fixtures, general intangibles, deposit accounts, documents and instruments of the Company.	$10,000	$ —
Note payable to Hongkong Bank of Canada, revolving line of credit, maximum borrowings of $5,900,000, interest at prime plus 3/8%; secured by general assignment of accounts receivable and inventory and a floating charge debenture on all the assets of Industra Service Corporation, Canada, a subsidiary of the Company.	2,688	—
Note payable to Branch Banking & Trust, payable $48,000 per month, including interest at prime plus 1.50%, maturing May, 1997, secured by deed of trust on real property and all personal property of United Eco Systems, Inc., a subsidiary of the Company.	2,200	—

NOTE F: NOTES PAYABLE (CONTINUED)

	1996	1995
	(United States Dollars in Thousands)	
8% convertible callable secured debentures, maturing May, 1997, convertible into common shares of the Company at a price of 85% of the greater of (a) the 20-day weighted average trading price of the common shares on NASDAQ, immediately prior to conversion and (b) the 1-day weighted average trading price of the common shares on NASDAQ immediately prior to conversion, unsecured. Refer to Note M.	1,850	—
Note payable to Bank of America, payable $100,000 per month, including interest at the bank's reference rate plus .75%, maturing August, 1997, secured by accounts receivable, inventory and machinery and equipment of SRS.	998	—
Note payable to Bank of America, including interest at the bank's reference rate plus .75%, maturing August, 1997, secured by accounts receivable, inventory, and machinery and equipment of SRS.	900	—
Note payable to Branch Banking & Trust, revolving line of credit, interest at prime plus 1.5%, maturing May, 1997, secured by a deed of trust on real property and a lien on all personal property of United Eco Systems.	700	—
Note payable to AICCO for insurance premiums, payable $61,400 (1996) and $82,000 (1995) per month, including interest at 6.19% (1996) and 7.8% (1995), secured by insurance premiums.	480	356
Note payable to SeaFirst Bank, revolving line of credit, maximum borrowings of $2,250,000, interest at prime plus .75%, secured by accounts receivable and equipment of Industra, Inc.	250	—
Note payable to Bridge City Bank, revolving line of credit, maximum borrowings of $250,000, interest at prime plus 2.50%, maturing June, 1997, secured by accounts receivable, equipment and inventory of Hubbard Electric Company, a subsidiary of the Company.	225	—
Note payable to Pacific Southwest Bank, payable $8,500 monthly, including interest at 11.25%, maturing March, 1998, secured by transportation and other equipment.	85	—

NOTE F: NOTES PAYABLE (CONTINUED)

	1996	1995
	(United States Dollars in Thousands)	
Note payable to First Interstate Bank, revolving line of credit, maximum borrowings of $4,000,000, interest at prime plus 1.50%. Aggregate amounts available under the line of credit were limited to 75% of total eligible accounts receivable from completed contracts and maintenance billings plus 60% of accounts receivable from progress billings, collateralized by accounts receivable and inventory of the Company. The line of credit expired in October, 1996.	—	3,450
Note payable to individual, payable on February 24, 1996, non-interest bearing, secured by real estate.	—	165
Other miscellaneous	23	—
	$20,399	$ 3,971

NOTE G: LONG TERM DEBT

	1996	1995
	(United States Dollars in Thousands)	
Note payable to Bank of America, payable $83,000 per month beginning January, 1997, plus interest at bank's reference rate plus .75%, secured by receivables, inventory, machinery and equipment of SRS.	$ 3,000	$ —
Note payable to Hongkong Bank of Canada, payable $23,000 per month, including interest at 9.00%, secured by real estate of Industra.	2,062	—
Note payable to The C.A. Turner Construction Company, Texas, payable $92,000 quarterly including interest at 8.00%, secured by substantially all of the fixed assets of C.A.Turner Construction, Inc. and Action Contract Services, Inc., two subsidiaries of the Company, maturing December, 2000.	1,240	1,495
Note payable to Hongkong Bank of Canada, payable $4,000 per month, including interest at 9.00%, secured by real estate of Industra.	368	—
Notes payable to four individuals, interest only through May, 1999, then quarterly payments of $38,000 including interest at 8%, unsecured.	398	—
Note payable to Metlife Capital Corporation, payable $8,000 monthly including interest at 8.50%, secured by equipment of C.A. Turner Construction, Inc.	262	337

Note G: Long Term Debt (Continued)

	1996	1995
	(United States Dollars in Thousands)	
Note payable to Bridge City Bank, payable $4,000 per month including interest at prime plus 1.00%, maturing July, 2110, secured by real estate of Hubbard Electric, a subsidiary of the Company.	242	—
Note payable to Cameron State Bank, payable $2,700 per month including interest at 9.125%, secured by real estate.	153	—
Note payable to Bridge City Bank, payable $1,000 per month including interest at prime plus 1.00%, maturing June, 2001, secured by real estate.	87	—
8.00% convertible callable secured debentures Series A, maturing October 14, 1998, convertible into common shares of the Company at a conversion price of $4.50 per share in Canadian dollars, secured by the assets of Eco Environmental, Inc., a subsidiary of the Company.	—	134
Note payable to Madison Trading International Ltd., payable $80,000 on February 28, 1996 and the remaining balance on February 28, 1997. Interest is at 7.00%, payable annually, unsecured.	—	297
Notes payable, other	401	119
	8,213	2,382
Current portion	1,595	451
Long-term portion	$ 6,618	$1,931

The aggregate principal payments on long-term debt during the years subsequent to November 30, 1996 are: 1997 - $1,595,000; 1998 - $1,726,000; 1999 - $1,779,000; 2000 - $785,000; 2001 - $467,000; thereafter - $1,861,000.

Note H: Lease Agreements

The Company leases equipment and office and warehouse space under capital and operating leases that expire at various times through September 1999 and September 2001, respectively. Imputed interest on the capital leases range from 9.00% to 17.50%.

Future minimum payments, by year and in the aggregate, under these capital and operating leases, consisted of the following at November 30, 1996:

	Capital Leases	Operating Leases
	(United States Dollars in Thousands)	
1997	$ 139	$ 1,319
1998	94	1,043
1999	14	767
2000	—	562
2001	—	406
Total minimum lease payment	247	$ 4,097
Amounts representing interest and executory costs	32	
Present value of net minimum lease payments	215	
Current portion	113	
Long-term portion	$ 102	

Rent expense for the years ended November 30, 1996 and 1995 amounted to $538,000 and $181,000, respectively.

Note I: Costs And Estimated Earnings on Jobs In Progress

	1996	1995
	(United States Dollars in Thousands)	
Costs, estimated earnings and billings are summarized as follows:		
Costs incurred on uncompleted jobs	$66,476	$ 44,971
Estimated earnings	8,417	6,720
	74,893	51,691
Billings to date	71,866	48,889
	$ 3,027	$ 2,802
Included in the accompanying balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on jobs in progress	$ 3,446	$ 2,996
Billings in excess of costs and estimated earnings on jobs in progress	(419)	(194)
	$ 3,027	$ 2,802

(United States Dollars)

NOTE J: BACKLOG (UNAUDITED)

The following schedule summarizes changes in backlog on contracts during the year ended November 30, 1996. Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at November 30, 1996, and from contractual agreements on which work has not yet begun.

Backlog balance at November 30, 1995	$ 46,951
Contracts entered into during the period	197,578
Less revenue earned during the year	(119,529)
Backlog balance at November 30, 1996	$ 125,000

The Company also entered into additional contracts with estimated revenues of $67,000 between December 1, 1996 and January 31, 1997.

NOTE K: RELATED PARTY TRANSACTIONS

For the years ended November 30, 1996 and 1995, the Company had business transactions with related parties. The details of these transactions and balances owing from and to these parties are as follows:

Green Cone Limited (U.K.) ("Green Cone")

1996 - During 1996, the Company converted its receivable in Green Cone to equity and assigned the Company's Green Cone Patent to Green Cone. The Company recognized income of $130,000 on this transaction.

1995 - During 1995, the Company had sales to Green Cone in the amount of $8,000. At November 30, 1995, $11,000 is included in accounts receivable and $136,000 in notes receivable.

Legal Fees

During the years ended November 30, 1996 and 1995, the Company incurred legal fees in the amount of $13,000 and $2,000, respectively, with a firm in which a director of the Company is a partner.

Consulting Fees

1996 - During the year ended November 30, 1996, fees aggregating $120,000 were paid to a director, in his capacity as an officer of the Company. Of this amount, $80,000 is included in deferred financing costs, $30,000 is included in share issue costs as a reduction to common stock, and $10,000 is included in administrative expenses. Additionally, another director was paid $109,000 for services rendered during the year, of which $27,000 is included in deferred financing costs, $18,000 is included in share issue costs as a reduction to common stock, and $64,000 is included in administrative expenses.

1995 - During the year ended November 30, 1995, fees aggregating $84,000 were paid to a Director, in his capacity as an officer of the Company. Of this amount, $75,000 is included in share issue costs as a reduction to common stock, and $9,000 is included in administrative expenses. Additionally, another Director was paid $140,000 for services rendered during the year, of which $110,000 is included in deferred bid costs and $30,000 is included in deferred financing costs.

NOTE K: RELATED PARTY TRANSACTIONS (CONTINUED)

Turner Holdings, Inc. ("THI") -
At November 30, 1996 and 1995, a note receivable in the amount of $20,000 was due from THI.

Sandhills Industries, Inc. -
During 1996, the Company earned gross revenues of $537,000 from a construction agreement with a company in which an employee of the Company has an equity interest.

EIF Holdings, Inc. -
1996 - The Company has a note receivable from EIF as of November 30, 1996, with accrued interest of $248,000. Refer to Notes B and E.

In conjunction with the above investment, the Company has entered into the following guarantees:

Employment agreements with the new President and Chief Operating Officer of EIF, through December 31, 2000.

The Company has guaranteed $800,000 of EIF bank debt with Farmers and Merchants Bank.

On December 13, 1996, EIF borrowed $300,000 from Truman Harty, Inc., which is guaranteed by the Company.

The Company has also guaranteed $22,481 to a vendor of EIF and the payment of November and December 1996 rent due to EIF's landlord.

Other items -
At November 30, 1995 accounts payable include $88,000, which was advanced to Cambridge Construction Service Corp. ("CCSC"), a subsidiary of the Company, by a former officer of CCSC. Also, CCSC leased office space from a company owned by an officer of CCSC. For the year ended November 30, 1995, rent expense amounted to $31,000 for such office space.

NOTE L: INCOME TAXES

Canada - Income tax expense varies from the amount that would be computed by applying the basic combined Canadian federal and provincial rate of 44.34%, as follows:

	1996	1995	1994
	(United States Dollars in Thousands)		
Basic rate applied to pre-tax income	$ 3,526	$ 419	$ 473
Reduction due to timing differences	(137)	(315)	(164)
Reduction due to income taxed in other jurisdictions	(2,603)	—	(24)
Reduction of income taxes due to application of loss carryforwards	(786)	(104)	(285)
Effective Canadian tax expense	$ —	$ —	$ —

NOTE L: INCOME TAXES (CONTINUED)

The Company has Canadian tax operating loss carryforwards expiring in years ended November 30:

1999	$ 555
2000	111
2001	1,521
2002	144
2003	884
	$3,215

United States - The components of the recovery of (provision for) income taxes are as follows:

	1996	1995	1994
	(United States Dollars in Thousands)		
Federal	$ 865	$ (16)	$ (54)
State	(50)	(128)	—
	815	(144)	(54)
Deferred	(6)	(64)	(4)
Recovery of (provision for) income tax	$ 809	$(208)	$ (58)

The significant components of the net deferred tax asset (liability) are as follows:

	1996	1995	1994
	(United States Dollars in Thousands)		
Depreciation of plant and equipment	$ (1,204)	$(400)	$ (291)
Reduction of income taxes due to application of loss carryforwards	1,415	565	281
Gain on sale of equipment, recognized on the installment method for income tax purposes	—	(125)	—
Other	(30)	12	(3)
Valuation allowance	(161)	—	—
Net deferred tax asset (liability)	$ 20	$ 52	$ (13)

The liability method of accounting for deferred income taxes requires a valuation allowance against deferred income taxes against the net income tax losses available to be carried forward. The Company established a valuation allowance against deferred tax assets of $161,000 at November 30, 1996.

NOTE M: Share Capital

Authorized share capital - The authorized share capital consists of unlimited Class A Preference shares and unlimited, no par value Common shares.

Issued share capital -	**Number of Common shares**	**Total Consideration**
(Total Consideration in United States Dollars in Thousands)		
Outstanding, November 30, 1993	4,789,510	$ 208
Conversion of debentures	950,430	3,130
Purchase of insurance deposits	369,849	1,187
Purchase of Cambridge Construction Service Corp.	400,000	1,200
Issued for debenture costs	20,000	64
Issued in settlement of debt	30,000	92
Issued for cash	262,552	862
Share issue cost	—	(232)
Outstanding, November 30, 1994	6,822,341	6,511
Conversion of debentures	1,147,250	3,454
Purchase of Lake Charles Construction Corporation	520,000	2,080
Purchase of Reclamation Management, Inc.	9,000	33
Issued for cash	78,500	145
Issued for services	130,000	460
Issued for real estate acquisition	152,381	400
Share issue cost	—	(1,280)
Outstanding, November 30, 1995	8,859,472	11,803
Conversion of debentures	198,820	1,284
Issued for acquisitions	4,283,204	27,269
Issued for cash	594,940	1,743
Issued for services	281,000	1,753
Share issue cost	—	(4,441)
Outstanding, November 30, 1996	14,217,436	$39,411

Share warrants - As of November 30, 1996, the Company had 876,000 outstanding share warrants, which call for the issuance of one common share upon presentation of the warrant at issue prices of $4.50 (Canadian dollars) to $6.00 (United States dollars). These warrants expire at various times through November, 2001.

Stock options - The Company has options outstanding to certain officers, consultants, directors and employees of the Company and its subsidiaries, to issue a total of 615,163 common shares at prices ranging from $2.50 to $8.30 (Canadian dollars). These options expire through March, 2001.

Convertible secured debentures - 265,107 common shares are reserved for issue on the conversion of convertible secured debentures of $1,850,000, maturing May, 1997.

Weighted average - The weighted average number of shares outstanding used in the calculation of earnings per share was 10,846,516, 7,217,005 and 6,191,296, for the years ended November 30, 1996, 1995 and 1994, respectively. See Note O.

NOTE N: ECONOMIC DEPENDENCE

The Company had revenues from ten, four and four customers that represented 68%, 75% and 48% of total revenue for the years ended November 30, 1996, 1995 and 1994, respectively.

NOTE O: DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES

United States accounting practices relating to foreign currency translation are not entirely compatible with Canadian accounting practices which the Company follows, and which are described in Note A. Under United States practices, where the functional currency is United States dollars, all currency translation adjustments related to assets and liabilities are included in earnings currently, whereas Canadian practices for integrated operations require that currency translation adjustments related to long term monetary items with a fixed and ascertainable life be deferred and amortized over the life of the item.

Deferred income taxes are translated at year-end rates of exchange under United States practices rather than historical rates of exchange which are required by Canadian practices.

Under the United States basis, income tax losses available to be carried forward are recognized when it is more likely than not that they will be realized. Under the Canadian basis, income tax losses available to be carried forward are recognized only when there is virtual certainty that they will be realized. For the years ended November 30, 1996, 1995 and 1994, there were no significant differences between these two methods.

Under accounting principles generally accepted in the United States, earnings per share would be calculated based upon the weighted average number of shares outstanding during the year plus common stock equivalents, such as common stock purchase options, unless they are anti-dilutive. Earnings per share would be computed as if common share purchase options and warrants were exercised at the beginning of the year, as if funds obtained thereby were used to purchase common shares of the Company at the average market price during the year. Fully diluted earnings per share would be calculated as if the proceeds from the exercise of common share purchase options and warrants were used to purchase the Company's common shares at its average market price during the year or its market value at the end of the year, whichever is higher.

NOTE P: RETIREMENT PLANS

The Company has a profit-sharing plan (defined contribution) retirement plan covering substantially all employees, except employees who are members of a union who bargained separately for retirement benefits. Employees are eligible upon attaining the age of twenty-one (21) and completing one (1) year of service. The amount of contribution to the plan is determined annually by the Board of Directors and may vary from zero to fifteen percent of covered compensation.

The Company, through its collective bargaining agreements with various unions, contributes to the unions' retirement plans. For the years ended November 30, 1996, 1995 and 1994, an expense of $1,454,000, $560,000 and $1,029,000, respectively, was incurred for these retirement plans.

(United States Dollars)

Note Q: Discontinued Operations

During 1994, the Company's management made a decision to cease operations of Action Machine Shop, a division of Action. At November 30, 1994, the net assets held for sale consisted of plant and equipment, with a cost of $374,000 and accumulated depreciation of $66,000. In August, 1995, these assets were sold for $675,000 to Longview Industries, Inc. and are included in notes receivable at November 30, 1995. The Company collected the receivables and liquidated the liabilities. Discontinued operations of Action Machine Shop for the year ended November 30, 1994 were as follows:

Revenues	$ 441,000
Cost of sales and general expenses	(600,000)
Loss from operations	(159,000)
Income tax benefit	54,000
Net loss	$ (105,000)

Note R: Contingencies And Commitments

Employment Agreement - The Company has an employment agreement with the chief executive officer through November 30, 2000 with an annual base compensation of $250,000. The chief executive officer is entitled to an annual bonus equal to five percent of net income and stock options have been granted that allow for the purchase of up to 20,000 shares of Company common stock per year pursuant to the currently effective Employee Stock Option Plan.

Litigation - The Company is involved in arbitration with a customer. The Company claims that equipment supplied to a clean-up site would not perform properly due to conditions at the site and the customer's actions interfering with the Company's ability to work efficiently. The customer has claimed the equipment did not perform as represented. This matter is currently in arbitration. The customer claims damages from the Company totalling $19.3 million, consisting of delay damages and costs of completion. The Company counter-claims damages totalling $2.4 million for breach of subcontract and $10 million for the customers bad faith and intentional misconduct. Although the outcome is not determinable, it is the best judgement of management that neither the financial position nor results of operations of the Company will be materially affected by the final outcome of this arbitration.

At November 30, 1996, there were various claims and disputes incidental to business. The Company believes that the disposition of all such claims and disputes, individually or in the aggregate, should not have a material adverse affect upon the Company's financial position, results of operations or cash flows.

Note S: Subsequent Events

The Company has entered into an agreement pursuant to which AEC would acquire Chempower, Inc. The transaction is anticipated to take the form of a merger, with an estimated purchase price of $48.36 million in a combination of cash and debt. In conjunction with this merger, the Company has consummated a private placement for $15 million of convertible debentures. The acquisition is subject to various conditions including negotiation and execution of a definitive agreement and completion of due diligence.

In February, 1997, the Company signed a letter of intent to form a joint venture with CVG International America ("CVG"). The joint venture is to provide industrial, environmental, engineering, and health and safety services to Corporacion Venezolana de Guyana.

NOTE T: SEGMENTED INFORMATION

The Company operates in Canada and the United States in three primary industry segments: (1) Environmental Services which involves asbestos removal, insulation and other environmental services, (2) Industrial Services which involves the repair, maintenance and modification of boilers, pressure vessels and tubing used in industrial facilities and the provision of engineering services, and (3) Manufacturing Services which involves construction of high-quality custom steel and alloy products. It is the Company's policy to price intersegment contracts on an equivalent basis to that used for pricing external contracts. The following is a summary of selected data for these business segments:

Industry Segmentation	**Environmental Services**	**Industrial Services**	**Manufacturing Services**	**Consolidated**
	(United States Dollars in Thousands)			
1996				
Contract income from customers	$31,897	$86,975	$ 657	$119,529
Operating income	2,118	5,617	218	7,953
Depreciation and amortization	1,132	1,100	—	2,232
Capital expenditures during the year	516	1,336	6,155	8,007
Identifiable assets	38,488	28,425	4,865	71,777
1995				
Contract income from customers	$ 5,362	$41,322	$ —	$ 46,684
Operating income	505	2,555	—	3,060
Depreciation and amortization	214	893	—	1,107
Capital expenditures during the year	54	1,675	—	1,729
Identifiable assets	4,636	17,163	—	21,799
1994				
Contract income from customers	$ 8,040	$26,951	$ —	$ 34,991
Operating income	451	615	—	1,066
Depreciation and amortization	196	848	—	1,044
Capital expenditures during the year	47	686	—	733
Identifiable assets	5,246	11,447	—	16,693

Geographic Segmentation	**Canada**	**United States**	**Consolidated**
	(United States Dollars in Thousands)		
1996			
Contract income	$ 6,509	$113,020	$119,529
Operating income	89	7,864	7,953
Depreciation and amortization	166	2,066	2,232
Capital expenditures during the year	6,151	1,856	8,007
Identifiable assets	20,988	50,789	71,777
1995			
Contract income	$ —	$ 46,684	$ 46,684
Operating income	—	3,060	3,060
Depreciation and amortization	—	1,107	1,107
Capital expenditures during the year	—	1,729	1,729
Identifiable assets	—	21,799	21,799
1994			
Contract income	$ —	$ 34,991	$ 34,991
Operating income	—	1,066	1,066
Depreciation and amortization	—	1,044	1,044
Capital expenditures during the year	—	733	733
Identifiable assets	—	16,693	16,693

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